



Volume XXII

JUNE 19
1953

Number 26

As I see it

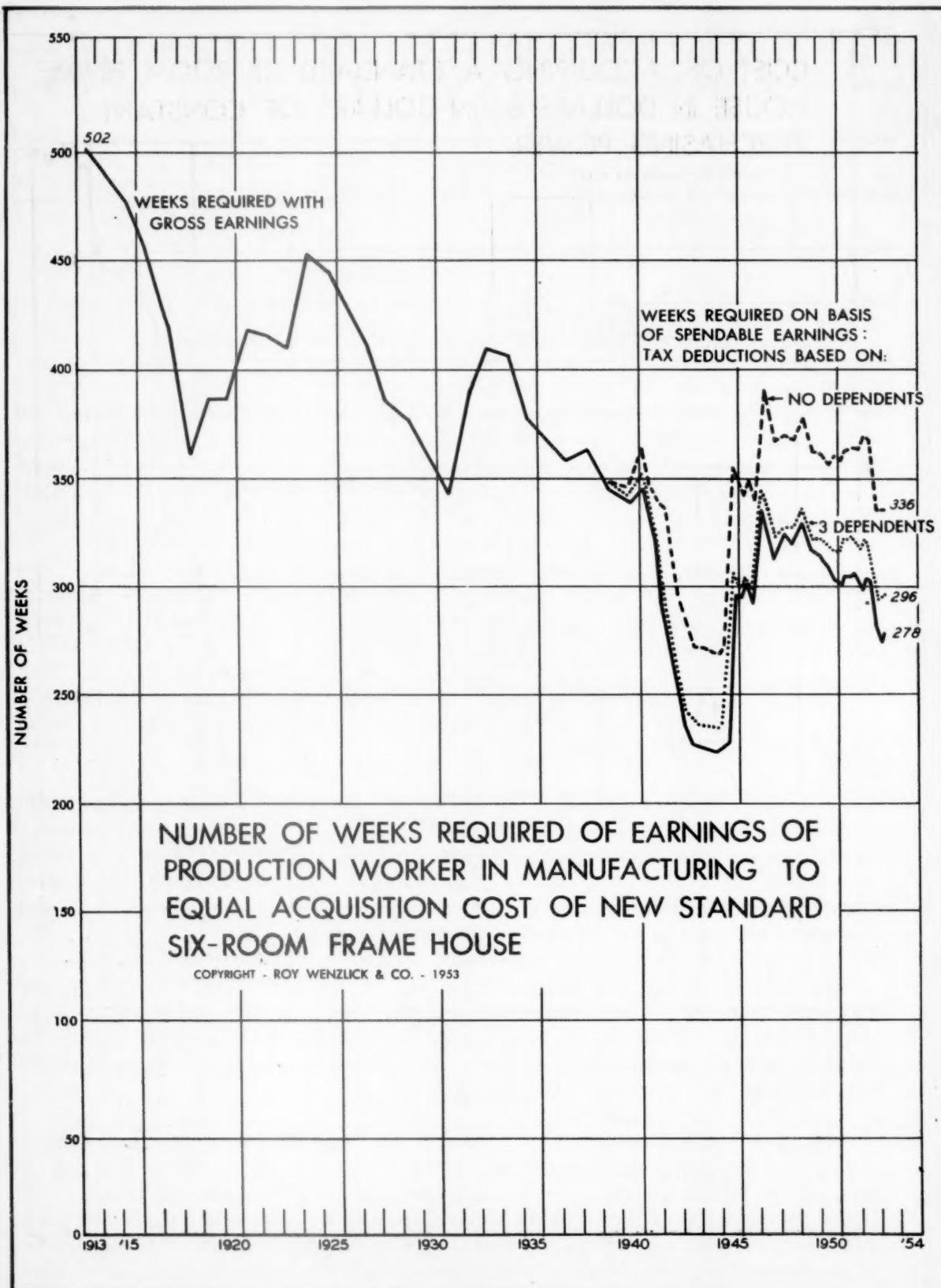
ARE CONSTRUCTION COSTS TOO HIGH?

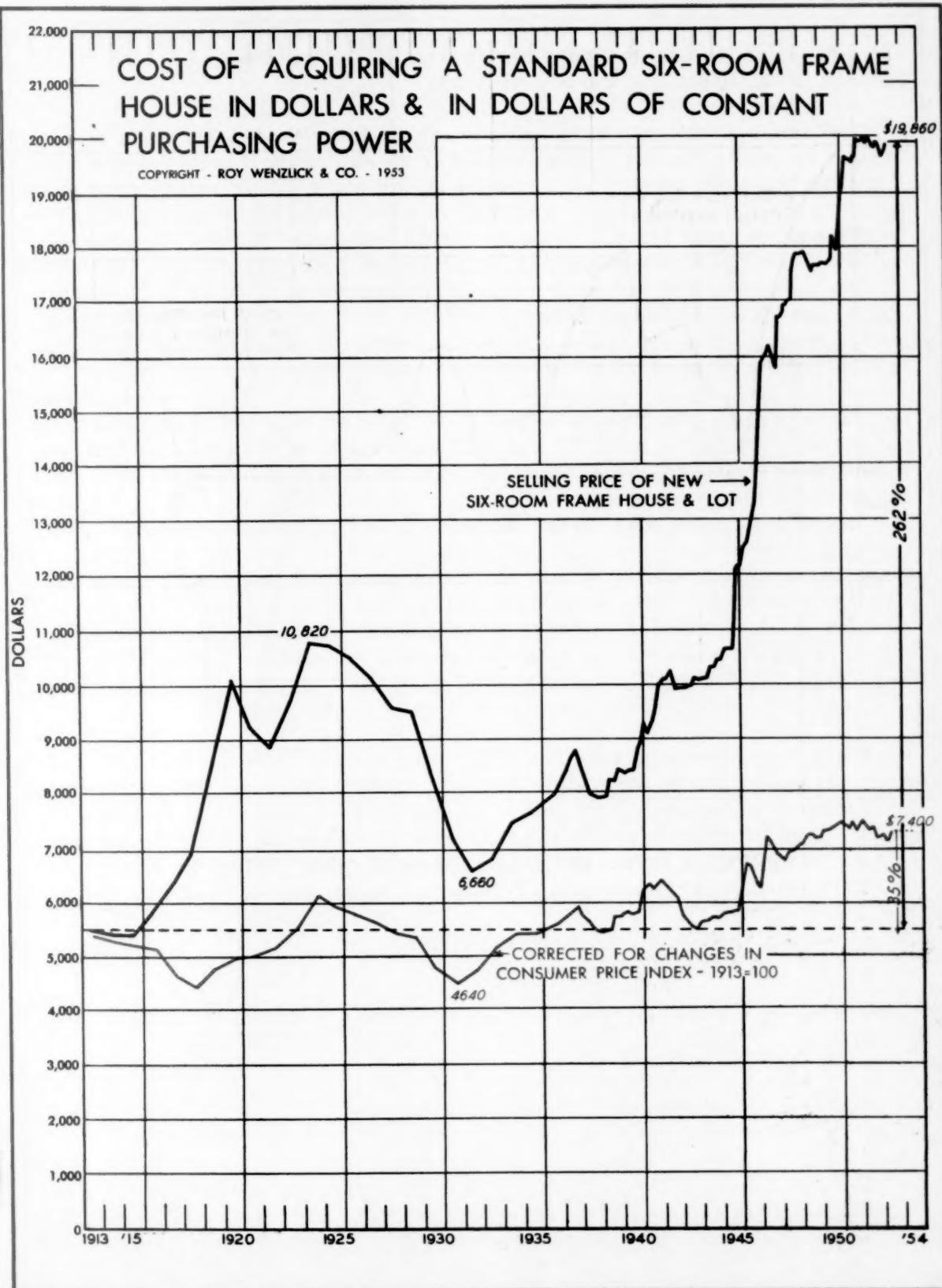
IN 1913, a production worker in manufacturing would have had to pay the equivalent of 502 weeks' earnings for our standard new six-room frame house and lot. This was slightly less than his entire income for 10 years. It is easy to see why home ownership among wage-earning families was quite low in that period. On the other hand, today this same worker could buy an equivalent new house for his entire earnings, after taxes, for 336 weeks if he has no dependents, and with three dependents this is reduced to 296 weeks. This is slightly less than 6 years, and is only 59% of its cost measured in earnings in comparison with 1913. If he did not have to pay income tax at the present time (as he did not in 1913), the cost of the house would be the equivalent of 278 weeks' earnings, or only 55.4% of its cost measured in earnings in 1913. The income tax deductions on a man without dependents increase the length of time over which his earnings would be equivalent to the price of a house by 58 weeks, or more than a year.

The chart on the following page shows the number of weeks required of the earnings of a production worker in manufacturing to equal the acquisition cost of our new standard six-room frame house for each year from 1913 to the present. The heavy line shows this without Federal income tax deductions, the dashed line for the tax deductions of a man without dependents, and the dotted line with the tax deductions based on a man with three dependents.

Since most people are compelled to buy a house with borrowed money, and since interest rates today are very much lower than they were in the period prior to the thirties, were this figure adjusted for the change in interest rates, the relative showing on the cost of housing today would be still better in comparison with the past than this chart now shows it.

This favorable showing on the cost of home ownership is not due to a drop in the cost of building a building in comparison with other prices, but is due almost entirely to the fact that the average earnings of the employed persons in our population have constantly increased because of the greater degree of mechanization in our manufacturing and the greater use of mechanical power per worker. An index of weekly earnings has gone up much faster than the cost of living. The more units of capital in the form of better equipment and greater machine power which





can be used per capita, the more rapidly will the buying power of the individual advance in relationship to the cost of living.

That the increase in purchasing power of employed persons is the reason for this favorable showing is demonstrated by the second chart in this series. On this chart the cost of building our house in dollars is shown by the solid blue line, and it will be noticed that in 1913 this cost was running around \$5,500. To build the same house today would cost a trifle less than \$20,000. If, however, we adjust our cost for the changes in the purchasing power of money, in 1913 dollars the cost of building our house would now be approximately \$7,400. The actual dollar cost since 1913 has increased by 262%, but not all of this is due to the change in the purchasing power of money. The house actually costs 35% more in terms of the price of goods and services than it did in 1913.

There is some justification, however, for a higher price in constant dollars today than for the price in 1913. The building which is being built today contains many improvements over the building built in 1913. Since July 1943, however, the cost of building our house in dollars has increased by 101%, and in dollars of constant purchasing power it has increased by 31%. There is less justification for the increased cost in constant dollars since 1943 as, with only minor exceptions, the buildings being built now are using about the same type of materials that they used then. It should also be kept in mind that, in figuring a dollar of constant purchasing power, there has been a somewhat similar improvement in the quality of the goods and services that goes into the consumer price level, and that a dollar of "constant" purchasing power, therefore, assumes that many of the goods purchased are of better quality than those of 20 years ago.

These figures would indicate that construction workers, who traditionally have been paid higher than average wages because of the seasonal and cyclical employment in these lines, have succeeded in periods of practically full employment in keeping these premiums, which have contributed to the housing cost of the general public. There has not been a sufficient increase in quality of housing since 1943 to justify the increase in cost of 31% in dollars of constant purchasing power on an identical building.



ROY WENZLICK